

A
BRIEF REPORT
ON
TEXTILE INDUSTRY IN INDIA

July, 2015

ASA & Associates LLP
chartered accountants (A member firm of NIS Global)
www.asa.in

For more information, contact. sateesh.kulkarni@asa.in

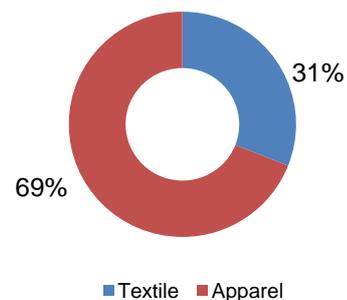
1. OVERVIEW OF TEXTILE INDUSTRY

1.1 Background

India is the one of the world's largest producers of textiles and garments. Abundant availability of raw materials such as cotton, wool, silk and jute as well as skilled workforce have made the country a sourcing hub. It is the world's second largest producer of textiles and garments. The Indian textiles industry accounts for about 24% of the world's spindle capacity and eight per cent of global rotor capacity. The potential size of the Indian textiles and apparel industry is expected to reach US\$ 223 billion by 2021.

The textiles industry has made a major contribution to the national economy in terms of direct and indirect employment generation and net foreign exchange earnings. The sector contributes about 14% to industrial production, 4% to the gross domestic product (GDP), and 27% to the country's foreign exchange inflows. It provides direct employment to over 45 million people. The textiles sector is the second largest provider of employment after agriculture. Thus, the growth and all round development of this industry has a direct bearing on the improvement of India's economy.

India's Textile Market Share(\$ billion)



India has overtaken Italy, Germany and Bangladesh to emerge as the world's second largest textile exporter. India's share in Global Textiles increased by 17.5% in 2013 compared to 2012. Textiles exports from India will touch US\$ 300 billion by the year 2024-25.

In 2012, apparel had a share of 69 per cent of the overall market; textiles contributed the remaining 31 per cent.

1.2 Various Categories

Indian textile industry can be divided into several segments, some of which can be listed as below:

- Cotton – Second largest cotton and cellulosic fibres producing country in the world.
- Silk – India is the second largest producer of silk and contributes about 18% to the total world raw silk production.
- Wool –India has 3rd largest sheep population in the world, having 6.15 crores sheep, producing 45 million kg of raw wool, and accounting for 3.1% of total world wool production. India ranks 6th amongst clean wool producer countries and 9th amongst greasy wool producers.

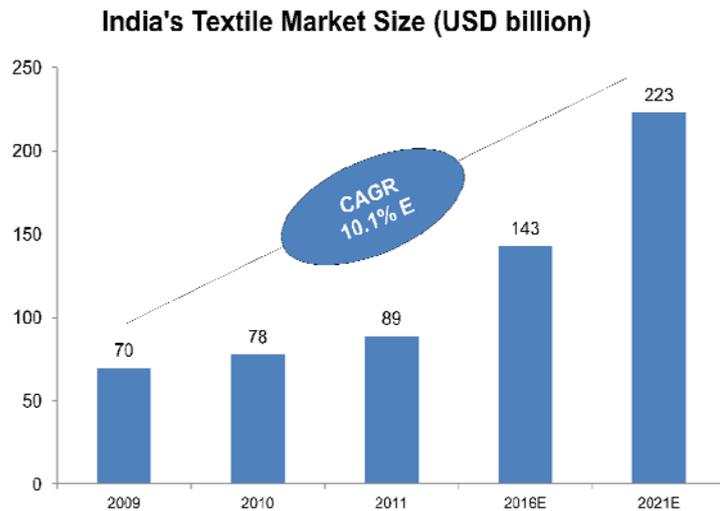
- Man-Made Fibres- the fourth largest in synthetic fibres/yarns globally.
- Jute – India is the largest producer and second largest exporter of the jute goods.

1.3 Market Size

The Indian textiles industry, currently estimated at around US \$108 billion, is expected to reach US \$ 141 billion by 2021. The industry is the second largest employer after agriculture, providing direct employment to over 45 million and 60 million people indirectly. The Indian Textile Industry contributes approximately 5% to GDP, and 14% to overall Index of Industrial Production (IIP).

The Indian textile industry has the potential to grow five-fold over the next ten years to touch

US\$ 500 billion mark on the back of growing demand for polyester fabric. The US\$ 500 billion market figure consists of domestic sales of US\$ 315 billion and exports of US\$ 185 billion. The current industry size comprises domestic market of US\$ 68 billion and exports of US\$ 40 billion.



Apparel exports from India have registered a growth of 17.6% in the period April - September 2014 over the same period in the previous financial year.

1.4 Global vs Domestic Scenario

The global trade of textile and garments was approximately \$781 billion in 2013. This is almost 4.6 per cent of the trade of all commodities, which is estimated at approximately \$17 trillion. From 2008 to 2013, the global textile and garment trade has grown at a CAGR of 4 per cent.

The current global garment market is estimated at approximately \$1.15 trillion which form nearly 1.8 per cent of the world GDP. Almost 75% of this market is concentrated in Europe, USA, China and Japan. An analysis of per capita spend on garment in various countries shows a significant difference between numbers in developed and developing economies. Within the major markets, India has the lowest per capita spend on garment (\$37) which is only 3 per cent of the highest one viz. Australia (\$1,131).

The top five textile and garment exporting nations are China, India, Italy, Germany and Turkey. China is the single largest exporter with 39 per cent share while India stood at a distant second place with 5 per cent share.

The top five textile and garment importing nations are US, China, Germany, Japan and United Kingdom. USA is the largest importer with a share of 17 per cent of the total global trade. The Indian textile and garment industry has an important presence in the country's economy through

its contribution to industrial output, employment generation, and the export earnings. It contributes almost 5% to the \$ 1.8 trillion Indian economy whereas its share in Indian exports stands at a significant 13 per cent. India is the second largest exporter of textile and garment goods with a global trade share of approximately 5 per cent.

The Indian domestic consumption of textile and garment is valued at US\$ 63 billion in 2013. Within this, garment retail has the highest share of 73 per cent contributing \$46 billion, technical textile contributes \$13 billion with a share of 21 per cent and home textiles contribute \$4 billion with a 6 per cent share.

In 2013, India became second largest exporter of textile & garment in the world surpassing Italy and Germany. India exported textile and garment goods worth \$40 billion, with a share of about 5 per cent of global textile and garment trade. In terms of value, Indian textile and garment exports is dominated by garment category which has a majority share of 40 per cent followed by yarn, fabrics, fibre, made-ups and other textiles including carpets, nonwovens, etc.

2. POLICIES AND GOVERNMENT INCENTIVES

2.1 Government Initiatives

The Indian government has come up with a number of export promotion policies for the textiles sector. It has also allowed 100 per cent FDI in the Indian textiles sector under the automatic route.

2.2 Sector Policy

- Technology Upgradation Fund Scheme has infused investment of more than INR 2500 Billion in the industry. Support has been provided for modernisation and upgradation by providing credit at reduced rates and capital subsidies.
- Scheme for Integrated Textile Parks provides world class infrastructure to new textile units. To date, 57 Textile Parks have been sanctioned with an investment of INR 60 Billion. By 2017, 25 more Textile Parks are to be sanctioned.
- Integrated Processing Development Scheme for sanctioning processing parks has been initiated. INR 5 Billion has been earmarked for this scheme.
- Integrated Skill Development Scheme has provided training to 1.5 Million people to cover all sub-sectors of textiles such as Textile and Apparel, Handicrafts, Handlooms, Jute and Sericulture.

2.3 Key Provisions of Budget 2014-15:

- Allocation of INR 500 Million towards the setting up of a trade facilitation centre and a crafts museum to develop and promote handloom products and carry forward the rich tradition of the handlooms of Varanasi.
- Allocation of INR 2000 Million towards the proposed setting up of mega textile clusters at Bareilly, Lucknow, Surat, Kutch, Bhagalpur and Mysore and one in Tamil Nadu.
- Allocation of INR 300 Million towards the setting up of Hastkala Academy for the preservation, revival and documentation of the handloom/handicraft sector in PPP mode in Delhi.
- Allocation of INR 500 Million towards the setting up of Pashmina Promotion Programme (P-3) and a programme for the development of other crafts of Jammu & Kashmir.
- The duty-free entitlement for import of trimmings and embellishments used by the readymade textile garment sector for manufacture of garments for exports is being increased from 3% to 5%.
- Non-fusible embroidery motifs or prints are being included in the list of items eligible to be imported duty-free for manufacture of garments for exports.
- The list of specified goods required by handicraft manufacturer-exporters is being expanded by including wire rolls so as to provide customs duty exemption on import by handicrafts manufacturer-exporters.
- Fusible embroidery motifs or prints, anti-theft devices, pin bullets for packing, plastic tag bullets, metal tabs, bows, ring and slider hand rings are being included in the list of items

eligible to be imported duty-free for manufacture of handloom made ups or cotton made ups or manmade made ups for export.

- Specified goods imported for use in the manufacture of textile garments for export are fully exempt from Basic Customs Duty (BCD) and Countervailing Duty (CVD) subject to conditions that the manufacturer produces an entitlement certificate from the Apparel Export Promotion Council or from the Indian Silk Export Promotion Council.
- Basic Customs Duty (BCD) on raw materials for manufacture of spandex yarn viz. polytetramethylene ether glycol and diphenylmethane 4,4 di-isocyanate is being reduced from 5% to NIL.
- Any of the following two deductions can be availed:
 - Investment allowance (additional depreciation) at the rate of 15% to manufacturing companies that invest more than INR 1 Billion in plant and machinery acquired and installed between 01.04.2013 and 31.03.2015, provided the aggregate amount of investment in new plant and machinery during the said period exceeds INR 1 Billion.
 - In order to provide a fillip to companies engaged in manufacturing, the said benefit of additional deduction of 15% of the cost of new plant and machinery, exceeding INR 250 Million, acquired and installed during any previous year, until 31.03.2017.

2.4 Tax Incentives:

- **R&D Incentives: Industry/private-sponsored research programmes:**
 - A weighted tax deduction is given under Section 35 (2AA) of the Income Tax Act.
 - A weighted deduction of 200% is granted to assesses for any sums paid to a national laboratory, university or institute of technology, or specified persons with a specific direction that the said sum would be used for scientific research within a program approved by the prescribed authority.
- **Companies Engaged in Manufacture Having an In-House R&D Centre:** A weighted tax deduction of 200% under Section 35 (2AB) of the Income Tax Act for both capital and revenue expenditure incurred on scientific research and development.
- **State Incentives:**
 - Apart from the above, each state in India offers additional incentives for industrial projects. Some of the states also have separate policies for the textiles sector.
 - Incentives are in areas like subsidized land cost, relaxation in stamp duty exemption on sale/lease of land, power tariff incentives, concessional rates of interest on loans, investment subsidies/tax incentives, backward areas subsidies and special incentive packages for mega projects
- **Export incentives:**
 - Export Promotion Capital Goods Scheme (PCGS)
 - Duty Remission Scheme
 - Focus Product Scheme, Special Focus Product Scheme, Focus Market Scheme
- **Area-Based Incentives:** Incentives for units in SEZ/NIMZ as specified in respective acts or the setting up of projects in special areas such as the North-east, Jammu & Kashmir, Himachal Pradesh & Uttarakhand

3. MAJOR & FOREIGN PLAYERS

3.1 Major Players in Indian Textile Industry

3.1.1 *Chiripal Group*

Chiripal Group laid foundations of ultra-modern 100 per cent cotton & blended bottom wear fabrics and the most modern & versatile denim manufacturing project called Nandan Denim Limited (NDL). NDL is one of the largest integrated Ahmedabad-based textile player engaged in the business of spinning and denim weaving. The company operates from various offices in India and across the world. It is in-housed with one of the most sophisticated weaving plants and other facilities to manufacture superior quality grey cotton fabrics, khakis and denims. The company is listed on the BSE and NSE stock exchanges

3.1.2 *The Victoria Mills Ltd*

The Victoria Mills Ltd was established in 1913. The Company started with a small capital of Rs 400,000 (US\$ 6,296.55) and had issued bonus shares from time to time and the present paid up capital is Rs 9,856,000 (US\$ 155,147.06) and Reserves Rs 185,602,146 (US\$ 12.37 million). Original mill was situated at Gamdevi, Mumbai and later shifted to Pandurang Budhkar Marg, Lower Parel, Mumbai. It was a composite textile mill producing fabrics for local as well as the international market.

3.1.3 *Digjam*

As the leading textile company of India, manufacturing suiting fabrics, Digjam has kept re-inventing itself keeping pace with the changing trends. DIGJAM has a high-end fabric brand presence in the domestic market, reputed for its finish and quality. The company manufactures over 3,000 design-shade combinations each year in Light Wool, Polyester Wool and Woolen fabrics for the DIGJAM brand alone. DIGJAM products and their ranges are available at its exclusive showrooms and over 4,000 other retail outlets across the country.

3.1.4 *The Ruby Mills Ltd*

Incorporated in the year, 1917 as a Composite Textile Mill mainly manufacturing cottons. The management of the unit was taken over by the late Mr C N Shah in 1946 and thereafter the mill has been regularly progressing and manufacturing a wide range of products. The Ruby Mills Ltd, has two plants located at Dadar, Central Bombay and Dhamni on Bombay-Pune Highway. Since 1996, The Ruby Mills Ltd, is manufacturing micro dot fusible interlining & basic interlining, in technical collaboration with Gygli Textil AG, Switzerland. The Company has been in operation since 1921 with an Annual Income of Rs 680 million (US\$ 10.95 million).

3.1.5 *Bombay Dyeing*

Bombay Dyeing was established in 1879 as a small operation of Indian spun cotton yarn dip dyed by hand. The company specialises in stylish linens, towels, home furnishings, leisure clothing, kids wear and a whole range of other products which are available in over 350 exclusive Bombay Dyeing Retail or 2,000 multi-brand stores. Bombay Dyeing also has a polyester division which is engaged in manufacture of 100 per cent virgin Polyester Staple Fibre and Textile grade PET Chips. It uses NGSSS technology from Invista Polyester Technologies and Chemtex International Inc, USA.

3.1.6 *Arvind Mills*

Started in 1931 by three brothers, with a share capital of Rs 2,525,000 (US\$ 41,957*), Arvind Mills was set up with the aim of manufacturing high-end superfine fabrics in India. Arvind has carved a niche with brand names like Arrow, Flying Machine, USPA, New Port, Mega Mart, and The Arvind Store. It has diversified into other major segments such as fabrics, garments, advanced materials, chemicals and dyes, retail, engineering, real estate, sustainable agriculture, and telecom.

3.1.7 *Welspun India Ltd*

Welspun India Ltd is a fully integrated home textile manufacturer and one of the top three globally. With a network across 32 countries, the company offers the entire range of home textile products to consumers from almost every corner of the world. It also owns leading brands such as Christy and Hygrocotton, among others. The company has modern manufacturing facilities at Anjar and Vapi in Gujarat, India, where it produces the entire range of home textiles for bed and bath category.

3.1.8 *Alok Industries Ltd*

Alok Industries Ltd vertically integrated textile company, provides end-to-end solutions through five core divisions – Cotton Yarn, Apparel Fabric, Home Textiles, Garments, and Polyester Yarn. Alok's large customer base comprises domestic and overseas retailers, garment exporters in India and converter countries who are vendors to major international labels. They include some of the world's largest retailers and India's largest manufacturers of apparel and home textiles.

3.1.9 *Raymond Ltd*

Raymond Ltd With a capacity of 38 million meters in wool and wool-blended fabrics, Raymond commands over 60% market share in worsted suiting in India and ranks amongst the first three fully integrated manufacturers of worsted suiting in the world. It exports products to over 55 countries including USA, Canada, Europe, Japan and the Middle East. It is the first to introduce Polyester-Wool and Polyester-Wool-Viscose in the India.

3.2 **Foreign Investor in Indian Textile Industry**

- Rieter (Switzerland)
- Trutzschler (Germany)
- Socktas (Turkey)
- Zambiat (Italy)
- Bilzar (Turkey)
- Monti (Italy)
- CMT (Mauritius)
- E-land (S. Korea)
- Nissinbo (Japan)
- Marubeni (Japan)
- Skaps (USA)
- Ahlstorm (USA)
- Terram (UK)
- Strata Geosystems (USA)

- Marks & Spencer (UK)
- Zara (Spain)
- Mango (Spain)
- Promod (France)
- Benetton (Italy)
- Esprit (USA)
- Levi's (USA)
- Forever 21 (USA)

4. CHALLENGES AND FUTURE PROSPECTS

4.1 Challenges faced by the Indian Textile Industry

In spite of immense factors fuelling the growth of the Indian textile industry, there are certain challenges faced by the country in terms of scarcity of trained manpower, escalating energy costs, high transportation costs, obsolete labor laws, low level of technology, and lack of economies of scale.

4.2 Future Prospects

The Indian textiles industry is set for strong growth, buoyed by both strong domestic consumption as well as export demand. The industry is expected to reach US\$ 220 billion by 2020.

With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with several international players like Marks & Spencer, Guess and Next having entered the Indian market. The organised apparel segment is expected to grow at a compound annual growth rate (CAGR) of more than 13 per cent over a 10-year period.

4.3 Growth Drivers

- Rising per capita income, favourable demographics and a shift in preference for branded products is expected to boost demand
- Favourable trade policies and superior quality will drive textile exports
- Increase in domestic demand is set to boost cloth production
- Pointed and favourable policies instituted by the government will give the industry a fillip.
- With consumerism and disposable income on the rise, the retail sector has experienced rapid growth in the past decade, with many global players entering the Indian market
- The centers of excellence focused on testing and evaluation as well as resource centres and training facilities have been set up
- As per the plan for 2012-17, the Integrated Skill Development Scheme aims to train over 2,675,000 people up to 2017, covering all sub-sectors of the textile sector – textiles and apparel, handicrafts, handlooms, jute and sericulture
- Changing lifestyles and increasing demand for quality products are set to fuel the need for apparel

4.4 Investment Opportunities

- Entire value chain of synthetics
- Value added and specialty fabrics
- Fabric processing set-ups for all kind of natural and synthetic textiles
- Technical textiles
- Garments
- Retail brands